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SUBJECT: F-X FIGHTER PROGRAM TO END WITH A WHIMPER ON NEW YEAR'S DAY

REF: BRASILIA 2890

Classified By: Deputy Chief of Mission Philip Chicola, reasons

1.4 (b &
d)

1. (C) SUMMARY: At midnight, December 31st, Brazil's F-X jet fighter competition will come to an end. Ultimately, a decision on the costly program proved to be politically untenable for the Lula administration. Given all the urgent requirements of Brazil's armed forces, the F-X was an expense that was hard to justify. Competitors for the F-X are refusing to go down quietly, but they are fighting a losing battle. With the end of the F-X, the GOB may review whether to purchase less costly used aircraft. In this regard, the Lockheed Martin F-16 would have the inside track. However, it is possible that the GOB may base a decision on used F-16s in the context of its continued questions about the U.S. as a reliable supplier. End Summary

The F-X Program, RIP

2. (SBU) On December 31, the Best and Final Offers (BOFAs) for the competition to select Brazil's new generation high performance jet fighter (F-X) will expire. Despite repeated GOB postponements during the past 12 months on a decision, the F-X program had still retained a breath of life thanks to repeated hints from former Defense Minister Viegas that a F-X award decision would be forthcoming. Throughout the process, however, the Lula administration was reluctant to commit to a choice. With the end of the validity of the BOFAs next week, the F-X program will be officially dead.

3. (SBU) The principal cause of the program's demise, most observers agree, was the F-X program's steep price tag, around \$700 million plus for the purchase of a dozen high performance aircraft. The huge cost, at a time when the Lula administration was engaged in fiscal austerity, made the program a politically impossible sell. (Note: The Brazilian Congress, which still has not concluded the 2005 budget, has not included jet fighters in its budget, and, in fact, provides very little money overall for defense. End Note.) Yet, until November, more than a few senior Brazilian Air Force (FAB) officers held out hope that FAB would get its new jets. When Russian President Putin departed Brazil last month without a deal in place for the Sukhoi SU-35 -- after offering to purchase 50 Embraer commercial aircraft as a deal sweetener and certainly dangling a possible agreement on ending the Russian embargo on Brazilian beef -- the last best chance for new fighter aircraft for FAB left with him (reftel).

4. (SBU) Other factors contributed to the F-X impasse. The Brazilian military's almost insatiable need for weapons systems upgrade and procurement required that the GOB triage the competing demands for funding. FAB already had been granted approval for buying ten new Black Hawk helicopters (about \$153 million). With both the army and navy biting at FAB's heels for funding their own urgent requirements, the new jet fighters became a harder sell.

5. (SBU) In view of the lack of any perceived threat, the strategic question of whether Brazil needed the F-X whose primary purpose was protection of the national capital, has received relatively little debate. The program itself ultimately owed its continued rationale less to the defense of Brasilia than as a tool of national pride, particularly following Chile's purchase of F-16s. Even some air force generals admit the principal current threat to Brazilian sovereignty (from narco-traffickers) can be addressed less expensively by other air force elements such as FAB's Super Tucanos.

6. (SBU) Meanwhile, F-X competitors are refusing to go down without a fight. Planted news articles in praise of one aircraft or attacking another (usually the F-16, and the alleged, and false, denial by the USG to provide AAMRAM capability to Brazil) continue to pop up. The most recent example of F-X muckraking is a cover story this week in left-leaning nationalist magazine Carta Capital in praise of the Mirage 2000 of the Embraer-Dassault consortium. In the Carta Capital article, Embraer President Mauricio Botelho, in

a direct swipe at Lockheed-Martin, is quoted as saying that because the USG won't allow it, U.S. companies offer "no chance" for transfer of military-related technology -- a bizarre comment in the wake of the winning Embraer--Lockheed-Martin bid for the development of the U.S. Army's Aerial Common Sensor System aircraft. Even Sweden's Gripen aircraft has received high profile lobbying with a prominent billboard at the entrance to Brasilia airport.

Used Aircraft?

17. (SBU) Throughout much of the long-running F-X competition -- while Lockheed Martin's F-16 was one of the competitors -- the U.S. company had urged the GOB consider the purchase of used F-16s as a significantly less costly option to the F-X. Although an attempt by Lockheed-Martin in early 2003 to ally with Varig Engineering and Maintenance (VEM) for a proposed upgrade of used F-16s fell through, the company remains upbeat it will be able to partner with a Brazilian firm (possibly Embraer) to craft an attractive used aircraft offer. Ultimately, Lockheed Martin believes it can provide fully capable F-16 aircraft at less than half the cost of the F-X. (Note: One driving factor, however, will be the ability of FAB to conduct inter-operable aerial refueling for any fighter. Brazil is considering purchasing two or three KC-135s to augment their refueling capability. Procurement of KC-135s from the U.S. would be a positive indicator for purchase of used F-16s. End note.)

18. (SBU) In recognition that new aircraft will be unobtainable, senior FAB leadership, including FAB's probable next Commander in Chief, increasingly have come around to accepting used F-16s as Brazil's best aircraft option. In this context, the F-16 appears to have the inside track over other used aircraft options, although there are rumors that some in FAB may be looking at procuring used South African Cheetahs, a modified Mirage III aircraft one generation older than the early F-16 models. Meanwhile, the Brazilian Congress which has been absent from the F-X debate, may get into the picture. In a discussion with emboffs, a prominent Deputy on the National Defense Committee stated he intended to hold hearings in 2005 on used fighter aircraft with an eye to promoting the F-16 as Brazil's best option.

19. (C) Comment: We expect that Brazil will continue to seek the acquisition of high performance jet fighters for reasons of national pride, if nothing else. U.S. Mission Brazil will continue to support the used F-16 option as the most logical way forward both tactically and economically. An increasing number of FAB generals appear to support this view. However, even though Brazil has moved forward on the purchase of other weapons systems, we suspect the GOB may not agree to purchase the F-16 unless it achieves an adequate comfort level on all aspects of the bilateral pol-mil relationship. As Brazil observes the bite that ASPA is taking on countries that do not sign Article 98 agreements, it questions about the reliability of the U.S. as a supplier/strategic partner will continue, thus further complicating the used F-16 acquisition option.

Danilovich